Synopsis

For Ph.D. Admission

FIANANCIAL PERFORMANCE EVALUATION USING CAMELS MODEL

- A COMPARATIVE STUDY OF SELECTED PUBLIC AND PRIVATE BANKS IN TELANGANA STATE

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1. INTRODUCTION TO THE STUDY

An economy's financial environment is normally composed of five elements: capital, financial instruments, financial institutions, regulations and financial markets. The banking sector is a fundamental component of financial system and the backbone of modern economic system. Banks are one of the oldest financial systems which plays a crucial role in the mobilization of deposits and disbursement of credit among the various sectors of the economy.

The success of the economy depends largely on the deployment and efficient use of capital and above all on the operating efficiency of the various sectors. In addition to promoting monetary policy, the banking sector helps to promote capital growth innovation and monetization. A banks good financial health protects its depositors, stake holders, employees and the country's economy as a whole.

A sound banking system acts as a fuel injection which stimulates economic efficiency by mobilizing savings and allocating them to high return investments. Various research studies tell those countries with a well-developed banking system grow faster in contrary to countries having the banking system. Another research study emphasized the function of financial sector in economic development and expressed that there is a strong correlation between economic growth and development of financial system.

In recent, the research studies highlighted that financial sector performs as supply leading role in transferring of resources from traditional, low growth sector to high growth sector and stimulates an entrepreneurship response in the high growth sector. From the above discussion it is cleared that the role of banking system is vital and crucial for the the capital formation in the country and it necessitates that bank must be more closely watched for their economic efficiency and performance.

The Concept of CAMEL Model

In the 1970s, a CAMEL-rating model was first created in order to provide a straightforward description of the banking situation in the context of the on-site review by three U.S Federal Reserve, Federal Deposit Insurance Corporation (FDIC) and Office of the currency (OCC) federal bank supervision bodies in the statutory "Uniform Financial Intuitions Rating system". The banks were evaluated under the abbreviation C-A-M-E-L for five separate components.

C: Capital adequacy
A: Asset quality
M: Management Efficiency
E: Earnings Capacity and
L: Liquidity

For each part of the CAMEL, the banks earned a score between "1" and "5" and a final CAMEL score reflecting the total amount of the score as a measure of the overall situation of the bank. In 1996, the CAMEL method was revised, when agencies added an extra "S" which which indicates Sensitivity and thus named "CAMELS ". In the recent past the banking regulators and policy makers have recommended bank supervision by using CAMELS rating model to assess and examine the performance and financial soundness of the bank. The commercial banks incorporated in India are being rated in in the CAMELS model on the basis of recommendations made by the Padmanabhan Committee.

The international branches operating in India are classified as "CALCS" (Capital Adequacy, Asset Quality, Liquidity and Systems Enforcement and Control). The CAMELS rating system is based on six (6) parameters. The score scale ratings from 1-5. The best performing banks are given the rating 1 and also those will be stable banks. A rating of 5, those banks are the worst performing banks and banks getting ranks between 2-3, it means those are average performing banks. If banks get the rank between 4-5, those are below average banks.

2. REVIEW OF THE LITERATURE

The evaluation of financial performance of banking sector has been assessed by various researchers, academicians and policy makers in different time periods. A simplistic review of some of the important studies is presented here which fulfils the need for the present study.

Dr. Mahua Biswas (2014). In his study titled "performance evaluation of Andhra Bank and bank of Maharashtra with CAMELS model" found that Andhra Bank dominated management efficiency and earning quality. However, and asst quality and liquidity bank of Maharashtra and dominated over Andhra Bank. Both banks were on par with respect to the cash adequacy ratio.

K.N.V. Prasad G. Ravinder, Dr. D. Maheshwar Reddy (2011). In their studies titled "A CAMEL model analysis of public and private sector banks in India" found that on average Karur Vaisya Bank was at top most position followed by Andhra Bank, Bank of Baroda and also it is observed that Central Bank of India was at the bottom most position. The largest public sector banks in India avail 36^{th} position.

Dr. K. Sri Harsha Reddy (2012). In her study titled "relative performance of commercial banks in India using CAMELS approach" found that public sector banks have significantly improved and indicating positive impact of reforms in liberalizing interest rate, rationalizing directed credit and investment and increasing completion.

R. Mayakkannan (2017). To conclude, the present study has brought out the impact of Human employee Perception and Performance of selected banks. Most of the bank employees have positive perception about their banks as well as the result of analyzing reflects that their performance for development of banks is also good. Employees have good perception about the bank personnel policies. Human resource planning, recruitment and selection, compensation system, employees motivation, performance appraisal and interpersonal relationship. Banks provide proper training for employees to improve their individual skills.

3. NEED FOR THE STUDY

As bank's good financial health protects the country's economy and depositors, it is important to evaluate the performance of the bank. Efficient measure and metric to track economic activity, soundness depends upon the performance assessment of the banking sector. In particular all the banks are exposed a variety of threats which are becoming more complex every day. Many mechanisms have been implemented and various steps have been taken to link the supervision of commercial banks with degree of risk and financial soundness of the banks,

In the recent past the banking regulators and policy makers have recommended bank supervision by using CAMELS rating model asses and examine the performance of the bank. CAMELS rating system as on effective internal supervisory tool for evaluating financial firms. Regulators of the banking sector always monitor the performance of the banks to ensure efficient financial system based on CAMELS ratio. In reaction to the crisis in Panjab National Bank, YES bank and other banks, the CAMELS model rating to be a valuable and effective tool in the country. The Reserve Bank of India, the regulatory body of all banks in India, recognizes this system.

4. OBJECTIVES OF THE STUDY

The main purpose of the study to evaluate the financial performance of private and public sector banks by using the CAMELS model and to assess the performance of banks. the research discusses the following objectives.

1) To evaluate CAMELS model for banks.

2) To measure the financial performance of selected public and private banking sectors by using CAMELS model.

3) Ranking of private and public sectors banking as per CAMEL ratio.

4) To find and suggest the way to improve the financial position of banking sector.

5. DATA SOURCES AND METHODOLOGY

The data for the study will be collected from primary and secondary sources. The primary data will be collected from the officials of selected public and private banks. A comprehensive questionnaire will be prepared to collect primary data and data will be collected through A) face to face interaction B) observation method C) interview ... etc.

Secondary data will be collected from published data which include,

1) Various publications of the central, state and local governments.

2) Textbooks, academic papers and information available in the data base.

3) Reports of private and public sector banks which relates to capital adequacy, quality management, performance, earnings and liquidity.

4) Journals, magazines and newspapers and competitive centers articles.

5) Reports prepared by research scholars, universities and economists regarding this research.

6)Through the websites of the private and public sector banks.

6. T00LS OF ANALYSIS

In the present study, statical tools such as averages, ratios and social techniques will be used. To present the data in the clear manner, tables, charts and diagrams also will be prepared wherever necessary.

7. SCHEME OF CHAPTERISATION

Ch-I: - Introduction

Ch-II: - Overview on Selected Public and Private Sector Banks

Ch-III: - CAMELS Model for Banks

Ch-IV: - Financial Performance of Public Sector Banks

Ch- V: - Financial Performance of Private Sector Banks

Ch-V I: -Ranking of Public and Private Sector Banks

Ch-VII: - Conclusions

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